Global value chains, Commission trade policy priorities and data needs

Seminar on Accounting for Global Value Chains,
Luxembourg 6-8 June 2017

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Chief Economist and Trade Analysis Unit
DG TRADE
Outline

• Assessing the impact of EU trade agreements
  • When? How? Role of GVCs, data and limitations

• The increasing importance of services trade

• Value Chains: a few illustrative examples and implications for trade policy

• Priorities and needs

• Conclusions
When are EU trade agreements assessed?

- **Before start of negotiations:** Impact Assessments (IAs), requirement for all major Commission initiatives.
- **During:** Sustainability Impact Assessments (SIAs) complement IAs with additional sectoral- and qualitative analyses and stakeholder consultations.
- **After conclusion:** Economic assessment of the negotiated outcome (EANO).
- **During and after implementation:** Ex-post analysis of the agreement once an agreement has entered into force and sufficient time has passed.
How are EU trade agreements assessed? What is the role of GVCs?

- Commonly employing computable general equilibrium (CGE) models
- Using actual economic data to estimate how an economy might react to changes in trade policy
- Reflect value chains between sectors and across countries. Simulates reductions in tariff and NTBs
- Results to be interpreted as compared to the baseline, i.e., what it would have been in the absence of an agreement
Which data is used to assess the impact of EU trade agreements?

- Underlying data for most studies come from the Global Trade Analysis Project (GTAP) data base.
- Latest release features three reference years and consistent IO tables for 140 regions and 57 (GTAP) sectors.
- Contains bilateral trade patterns, tariffs, production, consumption and intermediate use of commodities and services, energy data, CO2 emissions, etc.
- Significant efforts by GTAP centre to provide consistent IO tables for some many different countries/regions.
Which are the main limitations?

- Level of aggregation - sector details in goods and services are limited
- Certain elements are difficult to assess properly, irrespective of methodology

Other methodologies

- Partial equilibrium models to be used when product level results are needed (but linkages lost)
- Econometrics used primarily for ex-post assessments
The increasing importance of services trade

- Services account for close to 75% of EU GDP and for more than 50% for a vast majority of countries for which data is available

- The nature of services trade is changing/evolving
  - Goods today contain important services value and
  - Services are part of a good’s value chain

- But it is actually rare with meaningful services liberalisation in trade agreements
"Servicification"
• Services are traded more than what regular measures suggest
• Services pay custom duties
• Full effect of goods liberalisation requires services liberalisation
Value Chains: a few illustrative examples

- Gross trade or value added trade
- The share of foreign value added in gross exports
- GVC participation and local production
## iPhone 4S: where is it made?

### Estimated costs of components: $188

<table>
<thead>
<tr>
<th>Component</th>
<th>Cost</th>
<th>Location</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$80</td>
<td>Korea</td>
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<td></td>
<td>$23</td>
<td>United States</td>
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<tr>
<td></td>
<td>$16</td>
<td>Germany</td>
</tr>
<tr>
<td></td>
<td>$48</td>
<td>Other</td>
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### Assembly costs: $8

<table>
<thead>
<tr>
<th>Location</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>$8</td>
</tr>
</tbody>
</table>

Source: IHS iSuppli, OECD (2012)
Domestic value added in gross exports

2011 (%)

- EU28: 85.8*
- China: 67.8
- United States: 85.0
- Turkey: 74.2
- Japan: 85.3

Source: OECD-WTO TiVA. * The EU figure is an average of 2008-09 and relates to EU27

*Value chains tend to be more regional than global*
Light vehicle sales by production and region

<table>
<thead>
<tr>
<th>Year</th>
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<th>SA</th>
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<tbody>
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<td>86.4%</td>
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<td>10.3%</td>
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<td>28.2%</td>
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<td>0.2%</td>
<td>81.0%</td>
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<td>79.4%</td>
<td>1.9%</td>
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<td>2.1%</td>
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<td>0.1%</td>
<td>88.6%</td>
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<td>5.1%</td>
<td>0.1%</td>
<td>0.7%</td>
<td>0.1%</td>
<td>91.6%</td>
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Source: HIS Global Insight
Trade policy implications in the presence of GVCs

- Changes bilateral trade imbalances
- A tax on imports is a tax on exports
- May change the impact of anti-dumping duties
- If to serve far away markets perhaps you should consider entering the regional value chains
- Strengthens the case for integration among our partner countries (Mercosur, ASEAN, etc.)
Priorities and needs

• Details: disaggregation of sectors, split services trade by mode of supply (ESTAT efforts) and update elasticities

• Timeliness: as recent IO tables as possible. Recently updated EU IO tables are based on 2010 data

• Firm-level data for policy and communication
  - SMEs: trade by enterprise characteristics (TEC) and services trade by enterprise characteristics (STEC), ESTAT efforts
  - Anonymised firm-level trade data

• Ideally, firm-level GVC data
EU-US trade in your town

Products exported from Hallands län to the US:
- Food preparations (excluding meat)
- Apparel
- Beverages, spirits and vinegar
- Chemicals
- Copper, nickel, aluminium, lead, zinc, tin and other base metals
- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles
- Essential oils and resins; perfume, cosmetic or toilet preparations
- Footwear, gaiters and the like; parts of such articles
- Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings
- Iron and steel and articles
- Miscellaneous manufactured articles
- Nuclear reactors, boilers; machinery and mechanical appliances; parts thereof
- Optical, photographic, cinematographic; measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof
- Paper and paper products
- Plastic and rubber
- Printed books, newspapers, pictures and other products of the printing industry
- Salt; sulphur; earths and stone; plastering materials, lime and cement
- Soap, wax, candles and other washing and cleaning products
- Stone; ceramic and glass products
- Sugars and sugar confectionery
- Tanning or dyeing extracts; paints and varnishes and similar
- Textiles and fabrics
- Tools, implements, cutlery, spoons and forks and other articles of base metals
- Toys, games and sports requisites; parts and accessories thereof
- Vehicles other than railway or tramway rolling stock, and parts and accessories thereof
- Wood and cork

To US regions:
- Bay City, MI
- Boulder, CO
- Bremerton-Silverdale, WA
- Brownsville-Harlingen, TX
- Burlington, NC
- California-Lexington Park, MD
- Corvallis, OR
Conclusions

• GVCs are reflected in DG Trade’s analytical work. More detailed data and breakdown of sectors are needed

• GVCs change the way we look at trade policy, e.g. trade balances, trade taxes and investment decisions

• The increasing role played by services must be reflected in improved timeliness and details of the data

• Firms trade, not countries. The increased availability of data on firms will provide for better analyses and policies